



Internal Revenue Service

Small Business and Self-Employed

Taxpayer Education and Communication

Employment Taxes

Lesson 2



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Agenda

- **Employer Identification Number**
- **Employer/Employees/Contractors**
 - **Forms**
 - **Withholding and Employment Taxes**
 - **Advance Earned Income Credit**
 - **Annual Wage/Payment Reporting**
- **Filing Electronically**
- **Penalties**



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Objectives

- **Describe employer responsibilities for withholding and other taxes**
- **Review forms related to employment taxes, non-employee and miscellaneous payments**
- **Describe penalties**
- **Introduce electronic filing**

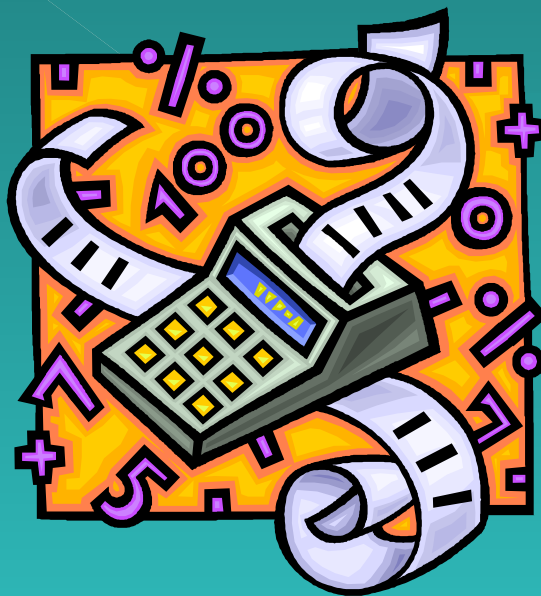


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Employer Identification Number





Employer Identification Number

Required if you:

- **Pay wages to employees**
- **Withhold taxes for non-wage payments**
- **Have a self-employed retirement plan**
- **Operate as a corporation or partnership**
- **File employment, excise, fiduciary, alcohol, tobacco & firearms tax returns**

Refer to Pub. 1635 - Understanding Your EIN



Special Note

You do not need an EIN for IRS if:

- You are a sole proprietor with no employees**
- None of the listed filing requirements apply**

If banks and wholesale suppliers require an EIN, apply to IRS for one

Sole proprietors may use their SSN if not otherwise required to have an EIN



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How to Get an EIN

On-Line

Most businesses apply on-line at www.irs.gov

Phone

Apply by calling the IRS toll free line

Paper

File a paper Form SS-4 Application for Employer Identification Number



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Using Your EIN

- **Use it on all items you send to the IRS and SSA pertaining to your business**
- **If you are a sole proprietor with more than one business, use only one EIN**
- **Use the same EIN year-to-year as long as you are in business**
- **Get a new EIN if you change from a sole proprietor to a corporation or partnership**



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Employers, Employees and Independent Contractors





Employer/Employees/Contractors

Employees

- **Perform services for you**
- **You control what will be done and how**

Independent Contractors

- **Perform services for you**
- **BUT is not under your direct control**

Generally, people in business for themselves are not considered employees – See Pub. 15-A



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Withholding Forms, Information Returns and Advance Credits





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Form W-4

Employee's Withholding Allowance Certificate

- **Determines the amount to be withheld from wages – employee fills it out**
- **Send Form W-4 to IRS if an employee**
 - **claims more than 10 allowances**
 - or**
 - **claims exempt from withholding and earns more than \$200 / week**



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Form 1099-Misc

Miscellaneous Income

Furnish to payee by January 31

- **If you pay more than \$600 during the year**
- **To an individual independent contractor or other non-employee for**
- **Services performed in the course of your business**

***Note:* Not for payments to corporations**



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Form W-9

Request for Taxpayer Identification Number and Certification

- **You need the SSN or EIN of an independent contractor to complete the Form 1099-Misc.**
- **Always have independent contractors complete Form W-9 before they begin to work**



Backup Withholding

If you do not receive an SSN or EIN before you pay the contractor:

- **Withhold income tax from the payment**
- **The backup withholding rate is 30%**
- **Report on Form 945 – Annual Return of Withheld Federal Income Tax**



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Form W-2

Wage and Tax Statement

- **Give to each employee by the earlier of**
 - **January 31**
 - **30 days after last wage payment**
- **Keep undeliverable Forms W-2 (copies B and C) in your records for four years**



Income Tax Withholding

- **Employee wages are generally subject to income tax withholding**
- **Figure it on gross wages before any deductions for:**
 - **Social Security**
 - **Union dues**
 - **Insurance, etc.**
- **Publication 15 has the withholding tables and instructions**



Social Security & Medicare Taxes

As an employer, you must:

- **Withhold Social Security and Medicare taxes from wages**
- **Pay a matching amount**
- **Deposit the employee's part of the taxes**

Source: Federal Insurance Contributions Act (FICA)



Withholding Rates

- **The limit for wages subject to Social Security withholding changes each year**
- **Use the current year's Social Security Tax rate**
- **All wages are subject to Medicare tax. Use the current year's Medicare tax rate**
- **The employee and employer shares are equal for both taxes**



Unemployment Tax

Federal Unemployment Tax Act (FUTA)

- States and Federal Government cooperate
- To establish and administer an unemployment tax program

Figure the Federal Unemployment Tax

- On the FUTA wage limit for the year
- For each employee paid during the year

Pub. 15 and Form 940 have more information



Advance Earned Income Credit

- **Advance EIC payment allowed if employee**
 - **Earns less than the yearly maximum**
 - **Has at least one qualifying child**
- **Refundable credit**
- **Use Notice 979 to notify those with no withholding**
- **Employee uses Form W-5, Earned Income Credit Advance Payment Certificate to claim it**



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Form W-3

Transmittal of Wage & Tax Statements

- **If filing on paper, file with SSA by February 28 every year you issue Forms W-2**
- **The SSA website allows on-line filing**
- **The totals on Form W-3 must equal the totals from all Forms 941 filed for the year**



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Form 1096

Annual Summary and Transmittal of US Information Returns

- **Use to transmit copies A of Forms 1099, 1098, 5498 and W-2G to the IRS**
- **File with each type of return**
 - **By February 28 if filing on paper**
 - **By March 31 if filing electronically**



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Filing Electronically





Filing Electronically

- **Filing information returns electronically is more cost effective than paper and magnetic media**
- **Form 4419 - Application for Filing Information Returns Magnetically/Electronically**
 - **Apply at least 30 days before the due date of the return(s) for current year processing**



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Penalties





Penalties

Dishonored checks

Failure to

- **File**
- **Pay**
- **Timely file an information return with the IRS or SSA**
- **Timely furnish a copy of any information return to the payee**



Penalties (Cont'd)

Failure to

- **File a partnership return**
- **Make Federal Tax Deposits on time in an authorized government depository**
- **Furnish specific information on an information return**
- **Collect and/or pay over Trust Fund taxes (Trust Fund Recovery Penalty)**
- **Make deposits electronically if required to do so**



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Need More Information?

- ***Pubs. 15 & 15-A - Employer's Tax Guide, Circ. E***
- ***Pub.1635 - Understanding Your EIN***
- ***Pub.3207 - Small Business Resource Guide***
- ***Website: www.irs.gov***
- ***Visit a local office***
- ***1-800-829-4933 Business and Specialty Tax Line***